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RHEBAAA/DEPT OF ENERGY
RHEHNSC/NSC WASHDC
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C O N F I D E N T I A L CARACAS 001061

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MEWENS
NSC FOR JSHRIER
COMMERCE FOR 4431/MAC/WH/MCAMERON

E.O. 12958: DECL: 04/23/2018
TAGS: ECON EFIN VE
SUBJECT: CHAVEZ ANNOUNCES INTENTION TO NATIONALIZE BANCO DE VENEZUELA

REF: A. CARACAS 930
¶B. CARACAS 1042
¶C. CARACAS 494

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b) and (d).

¶1. (SBU) President Chavez announced on July 31 his intention to nationalize Banco de Venezuela, one of Venezuela's four largest banks, currently owned by the Spanish Grupo Santander. According to press reports, Chavez suggested three reasons for this move: first, the government "could use a bank of this size"; second, it was appropriate for the government to take it over given its name (Chavez mentioned it had been "privatized some years ago"); and third, as the owners were looking to sell, it was better for the government to take the bank than for private bankers to buy it. Chavez said the BRV had documentation that Santander was negotiating to sell the bank to a Venezuelan banker but had told the BRV it had no interest in selling when the BRV expressed interest.

¶2. (U) Banco de Venezuela, founded in 1890, is one of Venezuela's oldest and most respected private banks. It was taken over by the state in August 1994 during the 1993-1994 banking crisis and sold to Santander in December 1996. As of June 30 2008, Banco de Venezuela had assets worth 23 billion bolivars (Bs), or USD 10.7 billion at the official exchange rate, and capital of Bs 2.1 billion (USD 970 million), making it Venezuela's third largest bank by assets and fourth largest by capital. It has the fourth largest retail network in Venezuela, with 270 branches.

¶3. (C) As noted in ref A, rumors were rife that Santander was negotiating with Victor Vargas, president of Banco Occidental de Descuento (BOD). The BRV issued a resolution effectively blocking the sale, and elements within the BRV had previously directed a related resolution against Vargas and BOD (ref B). A financial sector contact told us July 30 that Vargas had purchased for USD 50 million an option to buy Banco de Venezuela and had been intending to use structured notes worth approximately USD 1.2 billion to make the purchase. This contact said that Santander, which was looking to sell Banco de Venezuela in order to free capital to buy a German bank, had also received an offer for USD 800 million from a group of Chavista investors.

Comment

¶4. (C) Chavez' announcement comes as a surprise to most observers. Most of our financial sector contacts believed major nationalizations in the banking sector were not imminent because the BRV would prefer to control the sector through regulatory mechanisms rather than try to manage such a critical and technically challenging sector itself. Several contacts, however, believed a major nationalization was imminent because the BRV was seeking to expand its retail banking presence faster than it otherwise could, in order to support its patronage networks.

¶5. (C) There are likely multiple motivations behind Chavez' announcement, including a desire for greater control over a strategic sector (as with other nationalizations); a belief that control over Banco de Venezuela's network in particular offers opportunities to help Chavista candidates in the run-up to November regional elections; and personal factors such as an apparent falling out with Vargas. (Note: Whether the BRV will take over the bank in time to make a difference for the elections is questionable; the BRV is still negotiating the terms for the nationalization of the cement and steel companies announced this spring. End note.) As with the cement companies (ref B), Chavez played the nationalist card in a misleading way by referring to the bank having been "privatized". (Note: As mentioned above, the government took over the bank during a banking crisis and subsequently arranged for its sale to Santander. While this sale may technically qualify as a privatization, Banco de Venezuela never had a significant history of state ownership. End note.)

¶6. (C) The impact of this move on the financial system and the larger economy remains to be seen. State-owned banks do not have a good record in Venezuela (dating before Chavez), and banking sector contacts note most Venezuelans prefer to deposit their money with private banks. This move, therefore, will likely cause some depositors to move money to other banks or out of the country via the parallel market. It also comes at a time when some private banks face potential solvency problems due to losses related to structured notes (ref A), and we can only believe bank owners will now be even less likely to inject new capital. Finally, this move will further narrow the space left to the private sector and reduce remaining incentives for new private investment.
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